

CHARTER COUNTY OF WAYNE, MICHIGAN

Table of Contents

	Page(s)
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	1 – 3
Schedule of Expenditures of Federal Awards	4 – 7
Notes to Schedule of Expenditures of Federal Awards and Supplemental Schedules	8 – 9
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10 – 11
Schedule of Findings and Questioned Costs	12 – 43



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**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

The County Executive and County Commissioners
Charter County of Wayne, Michigan:

Compliance

We have audited the compliance of the Charter County of Wayne, Michigan (the County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include operations of the Mental Health Fund, which received \$10,759,962 in federal awards, which is not included in the schedule of expenditures of federal awards for the year ended September 30, 2005. Our audit, described below, did not include the operations of the Mental Health Fund because the County engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in items 2005-21, 2005-22, 2005-24, 2005-25, 2005-26, 2005-27, 2004-28, 2005-29, 2005-30, 2005-31, 2005-32, 2005-33, 2005-34, 2005-35, 2005-36, 2005-37, 2005-38, 2005-39, 2005-40, 2005-41, and 2005-42 in the accompanying schedule of findings and questioned costs, the County did not comply with the requirements regarding activities allowed or unallowed, allowable costs/cost principles that are applicable to Community Development Block Grant, Rouge National Wet Weather Demonstration Project, Head Start, VFC Vaccines, and Title IV-D; cash management for Rouge National Wet Weather Demonstration Project; eligibility for VFC Vaccines and Title IV-D; equipment and real property management for Rouge National Wet Weather Demonstration Project; procurement, suspension, and debarment for Rouge National Wet Weather Project and Title IV-D; program income for Community



Development Block Grant; reporting for Community Development Block Grant and Urban Area Security Initiative; subrecipient monitoring for Community Development Block Grant, Rouge National Wet Weather Demonstration Project; special tests; and provisions for VFC Vaccines. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to these programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Charter County of Wayne, Michigan did not comply, in all material respects, with the requirements referred to above that are applicable to the Community Development Block Grant. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to the Rouge National Wet Weather Demonstration Project and Title IV-D program. Also, in our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to the Head Start, VFC Vaccines, and Urban Area Security Initiative programs for the year ended September 30, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2005-23.

Internal Control Over Compliance

The management of the Charter County of Wayne is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2005-21, 2005-22, 2005-24, 2005-25, 2005-26, 2005-27, 2005-28, 2005-29, 2005-30, 2005-31, 2005-32, 2005-33, 2005-34, 2005-35, 2005-36, 2005-37, 2005-38, 2005-39, 2005-40, 2005-41, and 2005-42.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-22, 2005-25, 2005-26, 2005-30, 2005-31, 2005-32, 2005-36, and 2005-42 to be material weaknesses.



Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 27, 2006, which included a reference to the reports of other auditors. We did not audit the financial statements of the Mental Health Fund, a major governmental fund, which represents 6.14% and 33.61%, respectively, of the assets and revenues of the governmental activities. We also did not audit the Detroit-Wayne County Stadium Authority, which represents 16.98% and 1.34%; the Wayne County-Detroit Community Development Entity, Inc., which represents 0.02% and 0.14%; the Greater Wayne County Economic Development Corporation, which represents 0.003% and 0.05%; the Metropolitan Growth and Development Corporation, which represents 0.03% and 0.05%; and Health Choice of Michigan, which represents 0.07% and 1.86%, respectively, of the assets and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the Pension Trust Funds, which represent 76.01% and 33.11%, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Mental Health Fund, Detroit-Wayne County Stadium Authority, the Wayne County-Detroit Community Development Entity, Inc., the Greater Wayne County Economic Development Corporation, the Metropolitan Growth and Development Corporation, Health Choice of Michigan, and the Pension Trust Funds, are based on the reports of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the County's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the County's basic financial statements taken as a whole.

This report is intended solely for the information and use of the County Executive, Commission members, County management, and others within the County, and officials of the State of Michigan and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

October 27, 2006

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Expenditures
U.S. Department of Agriculture:		
Direct Program:		
Summer Food Program for Children	10.558	\$ 154,615
Passed through State Department of Education:		
National School Breakfast (note 2)	10.553	85,757
National School Lunch (note 2)	10.555	135,172
Nutrition Services/Food Distribution	10.568	111,383
Passed through Senior Alliance (Area Agency on Aging):		
Nutrition Services	10.550	691,561
Passed through State Department of Public Health:		
Special Supplemental Food	10.557	1,679,547
Passed through State Department of Natural Resources:		
Cooperative Forestry Assistance	10.664	20,000
Emerald Ash Borer Tree Planting Grant	10.664	20,000
Passed through Great Lakes Commission		
Soil & Water Conservation	10.902	61,213
Total U.S. Department of Agriculture		<u>2,959,248</u>
U.S. Department of Commerce:		
Passed through Michigan Department of Environmental Quality:		
Coastal Management Program	11.419	<u>50,000</u>
U.S. Department of Housing and Urban Development:		
Direct programs:		
Community Development Block Grant	14.218	7,133,681
Community Development Block Grant (Hamtramck Grand Haven-BEDI Grant)	14.246	74,916
Community Development Block Grant (Hamtramck Grand Haven-Section 108 Loan)	14.248	195,493
Community Development Block Grant (Hamtramck-Jos Campau Section 108 Loan)	14.248	183,890
Emergency Shelter Grant (McKinney Act for the Homeless)	14.231	218,793
Home Investment Partnership	14.239	1,819,550
Supplemental Assistance to the Homeless	14.510	176,537
Passed through the City of Taylor:		
Community Development Block Grant	14.218	<u>5,000</u>
Total U.S. Department of Housing and Urban Development		<u>9,807,860</u>
U.S. Department of Interior:		
Passed through National Fish & Wildlife:		
Detroit River Wetland Restoration Project	15.608	<u>100,000</u>
U.S. Department of Justice:		
Direct programs:		
Truancy and Intervention Program	16.548	256,649
Project Safe Neighborhood Weed & Seed	16.609	51,458
National CASA Grant	16.547	46,784

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Expenditures
Passed through Michigan Department of State Police: Operation Spotcheck	16.710	\$ 260,968
Passed through Michigan Department of Human Services – Family Independence Agency (FIA): Offender Reentry – Going Home Program	16.202	165,576
Juvenile Accountability Incentive Block Grant	16.523	387,740
Passed through Michigan Department of Community Health: School Resource Strategies	16.579	176,557
Byrne Memorial Formula Grant – Kids Talk	16.579	150,522
Byrne Formula Grant	16.579	325,265
Truant Net	16.579	84,190
Passed through State Office of Community Oriented Policing: COPS in School Grant	16.710	249,067
Passed through State Office of Drug Control Policy: Blitz & Broom	16.579	479,807
Out County Domestic Violence Project	16.579	41,202
Missing Child Rescue	16.579	165,423
OUIL Apprehension Program	16.579	311,051
Homeland Security	16.710	624,431
Byrne State and Local Discretionary Grant	16.579	85,898
Law Enforcement	16.579	208,947
Project Fresh Start	16.579	70,557
Technology 1	16.579	572,623
Live Scan Replacement Project	16.579	22,950
Project Safety	16.579	7,739
Passed through the Bureau of Justice Assistance: BJA Discretionary Grant – WAJIS	16.550	435,765
Passed through the City of Detroit: Child Abuse Intervention Team	16.579	82,248
Encourage Arrests and Personal Protection Orders	16.590	23,886
Passed through State Department of Management and Budget: Victims of Crime Act-Child	16.575	508,890
Victims of Crime Act	16.575	232,002
Total U.S. Department of Justice		6,028,195
U.S. Department of Transportation: Passed through Michigan Department of Transportation: Highway Planning & Construction (note 3)	20.205	2,069,955
Passed through Michigan Department of State Police: Safety Belt Enforcement Task Force	20.600	71,515
Total U.S. Department of Transportation		2,141,470
U.S. Environmental Protection Agency: Direct programs: Rouge National Wet Weather Demo Project	66.606	21,314,250
Brownfield Pilots Cooperative Agreements	66.811	191,913

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Expenditures
Passed through Michigan Department of Environmental Quality:		
State Indoor Radon Grants	66.032	\$ 1,700
Great Lakes Bathing Beaches Monitoring Program	66.472	6,210
Total U.S. Environmental Protection Agency		<u>21,514,073</u>
U.S. Department of Energy:		
Passed through Michigan Family Independence Agency:		
Weatherization Assistance for Low-Income Persons	81.042	<u>455,621</u>
Federal Emergency Management Agency:		
Passed through Michigan Department of State Police:		
Hazard Mitigation	83.548	<u>49,366</u>
U.S. Department of Education:		
Passed through Wayne County Regional Educational Service Agency:		
Part C/Early On	84.181	119,350
Parents as Teachers	84.181	767
Great Parent, Great Start	84.359	15,250
Passed through University of Detroit-Mercy:		
Federal Work Study – Prosecutor’s Internship Program	84.033	<u>33,110</u>
Total U.S. Department of Education		<u>168,477</u>
U.S. Department of Health & Human Services:		
Direct programs:		
Head Start	93.600	21,439,784
Assessing and Delivering Multicultural Services to Senior Services	93.048	623,389
Infant Mortality Reduction	93.283	125,842
Passed through Area Agency on Aging:		
Senior Community Service Program	93.044	13,290
Nutrition Services	93.045	1,656,355
Passed through Michigan Department of Public Health:		
TB Control	93.116	56,842
Infant Immunization Initiative	93.268	517,055
VFC Vaccines	93.268	3,894,194
Maternal and Child Health Services Block Grant	93.994	139,236
AIDS Counseling & Testing	93.940	194,173
Venereal Disease	93.977	8,513
Crippled Children	93.778	175,097
Oral Health Grant (CPBC Special Project)	93.994	25,000
Maternal and Infant Care	93.994	553,755
Child Lead Poisoning	93.197	40,000
MIC – Maternal Support	93.994	253,128
Medical Assistance Program – Infant Mortality Coalition	93.778	21,433
Passed through Michigan Department of Human Services – FIA:		
Child Visitation Services	93.556	198,318
LIHEAP	93.568	318,055

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Expenditures
Title IV-D	93.563	\$ 20,620,859
Dads From Day One	93.564	134,163
Title IV-E Foster Care	93.658	269,162
Passed through State Court Administrative Office:		
Prisoner Support Adjustment Project	93.601	10,364
Passed through Michigan Department of Community Health:		
Public Health Threats/Emergencies (Bioterrorism)	93.283	680,972
Passed through National Institutes of Health:		
Wayne State University Grant	93.361	43,576
Passed through the Substance Abuse and Mental Health Services Administration (SAMHSA):		
Anti-Addiction Treatment Program	93.243	104,176
Total U.S. Department of Health & Human Services		<u>52,116,731</u>
Department of Homeland Security:		
Passed through the Michigan State Police:		
Radiological Emergency Planning Grant	97.004 (formerly 16.007)	38,943
Solution Area Planner	97.004	61,800
Training Grant	97.004 (formerly 16.007)	107,570
State Homeland Security Grant Program	97.004 (formerly 16.007)	264,473
State Homeland Security Part II Training Grant	97.004	106,116
State Homeland Security Part II Critical Infrastructure	97.004	50,553
Urban Area Security Initiative Grant	97.008	3,829,687
CERT Grant	97.053	40,000
Emergency Management Performance Grant	97.042	197
Emergency Management Performance Grant	97.067	37,013
Total Department of Homeland Security		<u>4,536,352</u>
Total Federal Awards		<u>\$ 99,927,393</u>

See accompanying notes to schedule of expenditures of federal awards
and accompanying independent auditors' report.

CHARTER COUNTY OF WAYNE, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards and Supplemental Schedules

Year ended September 30, 2005

(1) **Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Charter County of Wayne, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

(2) **Food Distribution Program**

The Wayne County Youth Home receives funding for administration of commodities under the National School Lunch Program. Reimbursements for administration of the program are reported on the Schedule of Expenditures of Federal Awards (CFDA Nos. 10.553 and 10.555). The value of the commodities received during the fiscal year was \$29,485. The County's Emergency Food Assistance Program (TEFAP) also receives funding for administration of commodities. The program is reported on the Schedule of Expenditures of Federal Awards (CFDA No. 10.568). The value of commodities received during the fiscal year was \$405,750.

(3) **Highway Planning and Construction Program**

The County participates in 30 separate road, street, and bridge construction and repair projects, which are primarily administered by the State of Michigan Department of Transportation. The projects, which are controlled by the State, are recorded in the County's general ledger and amounted to \$8,243,122. The federal financial assistance administered directly by the State has not been included in the tests of compliance with laws and regulations associated with the County's Single Audit.

(4) **Subrecipients**

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the Charter County of Wayne, Michigan provided federal awards to various subrecipients as follows:

Program	Federal CFDA number	Amount provided
Headstart	93.600	\$ 20,082,641
Title IV-E Foster Care	93.658	263,072
Rouge National Wet Weather Demo Project	66.606	18,613,731
Community Development Block Grant	14.218	6,214,377
CDBG-Hamtramck Section 108 Loan – Grand Haven	14.248	74,916
CDBG-Hamtramck Section 108 Loan – Jos Campau	14.248	182,183
CDBG-Hamtramck BEDI Grant	14.246	196,779
Home Investment Partnership	14.239	1,550,861

CHARTER COUNTY OF WAYNE, MICHIGAN

**Notes to Schedule of Expenditures of Federal Awards
and Supplemental Schedules**

Year ended September 30, 2005

(5) HUD Section 108 Loans (14.248)

The Federal Department of Housing and Urban Development (HUD) awarded Section 108 Guaranteed Loans to the City of Hamtramck in the aggregate amount of \$1,514,313 in fiscal year 2004. The loan represents pass-through funds from the County of Wayne to the City of Hamtramck for the purpose of housing and economic redevelopment. The City of Hamtramck also received \$650,000 in federal grant funding from the Brownfield Economic Development Initiative (BEDI) in fiscal year 2004. The City of Hamtramck was not eligible to apply directly to HUD for BEDI and Section 108 funding since the City of Hamtramck participates with the County of Wayne for the purpose of receiving federal Community Development Block Grant (CDBG) funds. Consequently, the County of Wayne applied for, and was awarded, the funding. BEDI is designed to help cities redevelop abandoned, idled or underutilized industrial and commercial facilities where redevelopment is complicated by real or perceived environmental contamination. A BEDI grant must be used in conjunction with a Section 108 Guaranteed Loan commitment. The BEDI grant activity is disclosed on the Schedule of Expenditures of Federal Awards under CFDA 14.246, and the CDBG housing portion received by the County of Wayne is disclosed on the Schedule of Expenditures of Federal Awards under CFDA 14.218.

The expenditures related to the Section 108 Guaranteed Loan activity are disclosed on the Schedule of Expenditures of Federal Awards under CFDA 14.248. Loan repayment commenced in 2005. Collateral for repayment of the funds includes future Community Development Block Grant entitlements due to the City of Hamtramck from HUD, passed through the County of Wayne.



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**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The County Executive and County Commissioners
Charter County of Wayne, Michigan:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter County of Wayne, Michigan (the County) as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 27, 2006, which included a reference to the reports of other auditors. We did not audit the financial statements of the Mental Health Fund, a major governmental fund, which represents 6.14% and 33.61%, respectively, of the assets and revenues of the governmental activities. We also did not audit the Detroit-Wayne County Stadium Authority, which represents 16.98% and 1.34%; the Wayne County-Detroit Community Development Entity, Inc., which represents 0.02% and 0.14%; the Greater Wayne County Economic Development Corporation, which represents 0.003% and 0.05%; the Metropolitan Growth and Development Corporation, which represents 0.03% and 0.05%; and Health Choice of Michigan, which represents 0.07% and 1.86%, respectively, of the assets and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the Pension Trust Funds, which represent 76.01% and 33.11%, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Mental Health Fund, the Detroit-Wayne County Stadium Authority, the Wayne County-Detroit Community Development Entity, Inc., the Greater Wayne County Economic Development Corporation, the Metropolitan Growth and Development Corporation, Health Choice of Michigan, and the Pension Trust Funds, are based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the Wayne County Airport Authority. We have issued a separate report on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters for the Wayne County Airport Authority. The findings, if any, included in that report are not included herein.



Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions' on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-06, 2005-07, 2005-08, 2005-09, 2005-10, 2005-11, 2005-12, 2005-13, 2005-14, 2005-16, 2005-17, 2005-19, and 2005-20.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-02, 2005-03, 2005-04, 2005-05, 2005-17, 2005-19, and 2005-20 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2005-15.

This report is intended solely for the information and use of the audit committee, management, the State of Michigan, and federal awarding and pass-through agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

October 27, 2006

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Section I – Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified**
- (b) Reportable conditions in internal control were disclosed by the audit of financial statements: **Yes**
- (c) Material weaknesses: **Yes**
- (d) Noncompliance that is material to the financial statements: **Yes**
- (e) The type of report issued on compliance for major programs (each major program listed separately in the table below):

<u>Unqualified</u>	<u>Qualified</u>	<u>Adverse</u>
VFC Vaccines (CFDA #93.268)	Rouge National Wet Weather Demonstration Project (CFDA #66.606)	Community Development Block Grant (CFDA #14.218)
Urban Area Security Grant (CFDA #97.008)	Title IV-D Child Support Enforcement (CFDA #93.563)	
Head Start (CFDA #93.600)		

- (f) Any audit findings that are required to be reported under Section 501(a) of OMB Circular A-133?: **Yes**
- (g) Major programs: Rouge National Wet Weather Demonstration Project (CFDA #66.606); VFC Vaccines (CFDA #93.268); Title IV-D Child Support Enforcement (CFDA #93.563); Head Start (CFDA #93.600); Community Development Block Grant (CFDA #14.218); Urban Areas Security Initiative (CFDA #97.008)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,997,822**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

Section II – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

2005-01 Journal Entries – Support and Approval

Criteria

Journal vouchers are prepared by the respective departments and require approval by a supervisor or manager and supporting documentation. The approver of the journal voucher is required to be independent of the preparer of the journal voucher.

Condition

Out of 64 journal vouchers tested, one entry was not supported by adequate documentation and one entry was not properly approved.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Cause

The policies that require review and approval and supporting documentation for each journal entry are not consistently applied and enforced.

Effect

Journal vouchers that lack appropriate approvals and supporting documentation might cause misstatements in the financial statements.

Views of Responsible Officials

The Accounting Division has implemented procedures to ensure that all journal entries are approved and signed by someone independent of the journal entry and that appropriate supporting documentation accompanies each journal entry. These new procedures were implemented subsequent to the posting of the above referenced journal entry. Following the posting of this entry, appropriate support was requested but was not provided and the entry was effectively removed from the system. The entry referenced above that did not have the proper approval relates to a system upload from the Treasurer's RESIQ system. The Accounting Division's procedures regarding the posting of the system uploads was followed, and the entry was posted by someone other than the preparer. Division staff have been trained on the preparation of appropriate supporting documentation. In June 2006, the Department of Management and Budget (M&B) provided internal control training to all County staff, which emphasized the importance of internal control at all levels and an appropriate segregation of duties.

Recommendation

Employees who prepare and process journal entries should receive periodic training. Consideration should be given to developing policies and procedures related to monitoring and detecting noncompliance with County policies. Employees who fail to follow County policies should be subject to appropriate disciplinary action.

2005-02 Journal Entries – System Configuration

Criteria

Data in the JD Edwards general ledger file should include a record of the users who posted and approved journal entries. Additionally, an appropriate segregation of duties should exist between those that prepare, post, and approve journal entries.

Condition

Certain individuals have access to approve and post their own journal entries. Also, certain technical support personnel have access to make changes directly to the general ledger data without proper monitoring. Also, various transactions are posted overnight to the general ledger under the identification "sleeper" within JD Edwards. The identification of the actual approver of a journal entry posted in this manner is not retained or identified within JD Edwards.

Cause

The policies that require segregation of duties for the posting and approval of journal entries are not consistently applied and enforced.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Effect

Since the sleeper functionality does not identify the originator of the journal entry, this does not provide an audit trail for journal entries. The lack of segregation of duties within JD Edwards and the lack of identification of the approver of posted sleeper entries might lead to inappropriate entries being posted to the general ledger or to unauthorized changes being made to general ledger data.

Views of Responsible Officials

During fiscal year 2005/2006, Accounting Division management, with the assistance of the Department of Technology (DOT), reviewed JD Edwards' user access to ensure that (1) users had the access appropriate to their current duties and responsibilities and (2) there was an appropriate segregation between those individuals preparing the journal entries and those individuals approving the journal entries. Certain system limitations provide challenges for input and approval access in Central Accounting, which must have the ability to initiate its own journal entries and approve and post entries from the user departments. The Accounting Division, in collaboration with DOT, continues to explore intermediate system reconfigurations to accomplish this goal. In the meantime, appropriate manual review procedures over manual journal entry preparation and approval have been put in place to mitigate the risk of entries being initiated and approved by the same individuals.

The County is currently upgrading its AS 400 platform. During FY 06-07, the County will upgrade its general ledger system, which will provide enhanced capabilities to address weaknesses in system functionality and documentation.

The system configuration has been modified, effective 9/20/2006, to remove sleeper batch processing from manual journal entries. The approver of a manual journal entry must also post the journal entry, thus the post user ID will be the user ID of the approver.

Recommendation

Individuals who post entries within JD Edwards should not be able to approve their own journal entries within JD Edwards. Additionally, consideration should be given to modifying system configurations or upgrading financial systems to prevent the loss of an audit trail.

2005-03 Recording of Capital Assets

Criteria

Internal controls should exist to ensure that all capital asset disposals are properly recorded in the financial records in accordance with generally accepted accounting principles and related County policies.

Condition

Certain procedures should be in place to ensure that all relevant capital asset disposals are being properly identified and properly recognized in the financial statements.

Cause

Procedures that were in place at the time of the audit were not deemed to be adequate to identify or recognize capital asset disposals in accordance with generally accepted accounting principles and County policies.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Effect

A lack of appropriate internal controls over the recording of capital asset disposals could lead to material errors in the financial statements.

Views of Responsible Officials

In conjunction with fiscal year-end September 30, 2006 closing procedures, the Accounting Division has prepared a communication to all other County divisions requesting information on all capital asset transfers, retirements, disposals, and impairments. This communication emphasizes information in the County's Capital Assets Policy, which is available to all County employees via the County's intranet.

Recommendation

Individuals who are knowledgeable in the area of generally accepted accounting principles related to capital assets should perform a substantive monitoring and communication with all departments to ensure all potential capital asset disposals are recorded properly.

2005-04 Review of Leases

Criteria

Internal controls should exist to ensure that all leases are properly reviewed to ensure they are recorded in the financial records in accordance with generally accepted accounting principles and related County policies.

Condition

Certain procedures should be in place to ensure that all relevant leases are being properly identified, reviewed, and properly recognized and disclosed in the financial statements.

Cause

Procedures that were in place at the time of the audit were not deemed to be adequate to identify, review, and ensure that all leases were properly recognized and disclosed in the financial statements in accordance with generally accepted accounting principles and County policies.

Effect

A lack of appropriate internal controls over the identification and review of leases could lead to material errors in the financial statements.

Views of Responsible Officials

Effective for fiscal year 2006/2007, the Accounting Division will develop procedures to ensure that each County lease is identified, reviewed, and properly recognized and disclosed in the County's financial statements. These procedures will include a concise methodology for evaluation of each lease as well as the maintenance of the documentation of each assessment.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Recommendation

Individuals who are knowledgeable in the area of generally accepted accounting principles related to leases should perform a periodic search to identify all leases and review the lease terms to ensure all potential leases are recorded properly.

2005-05 Payroll Documentation

Criteria

Timesheets or other adequate records of time worked should be maintained according to relevant document retention standards, time records should be properly approved by an authorized individual, and timesheets should agree to the record of hours paid in the payroll system.

Condition

Time reporting process used by the County did not consistently contain all control elements required to properly process and approve time reported across all County departments.

Cause

County policies regarding approval of timesheets and retention of documents have not been consistently followed and enforced in all departments.

Effect

County policies and procedures related to the processing of timesheets and payroll should be properly followed, monitored, and enforced to ensure that employees are paid accurately.

Views of Responsible Officials

On May 31, 2006, Management and Budget (M&B) issued Policy/Procedure Statement No. 12003, "Time Reporting." This policy addresses the proper completion, review, approval, processing, and retention of time reports. The policy also provides standard forms to be used by County personnel, including management, for regular and grant time reporting.

Recommendation

Timesheet policies and procedures should be reviewed and modified to include compliance monitoring and to improve overall compliance with the policies.

2005-06 Access to Master Vendor File

Criteria

Access to the JD Edwards (JDE) Vendor Master File should be limited to personnel authorized to enter, edit, or delete vendor information from the Vendor Master List. Such individuals should have an appropriate segregation of duties.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Condition

Certain users with access to process payments and create vouchers also had access to update the Master Vendor file. Furthermore, the Master Vendor file also serves as the "Address Book Master File," which is used for other purposes, such as business unit definitions.

Cause

The Vendor Master File is also being used as the Address Book Master File, which is used for other purposes besides processing payments to vendors.

Effect

Personnel with conflicting duties and access rights have the ability to add, edit, or delete vendors. This could lead to fictitious or erroneous vendor records, which could cause inappropriate payments being made or payments being rerouted to fraudulent addresses. Additionally, the Vendor Master File might become cluttered with multiple entries for a single vendor with name variations; this could lead to a weakening of the internal control procedures that are designed to prevent duplicate payments being processed to the same vendor.

Views of Responsible Officials

During fiscal year 2005/2006, Department of Technology (DOT) removed access to the Address Book Master File (the Address Book) for users who had other incompatible functions, such as the ability to process payments and produce vouchers. The County had designed its procedures to allow access to enter, edit, or delete information to a limited number of individuals, whose duties and accountability would be separate from the Accounts Payable processing functions. The identification of incompatible functions within the system was an oversight.

Only Department of Technology staff has the ability to modify business unit functions.

Recommendation

A thorough periodic review should be conducted on a regular basis by individuals that are knowledgeable regarding each individual's job responsibilities to ensure that no individuals with conflicting duties have inappropriate access rights within the financial systems.

2005-07 Systematic Three-Way Match

Criteria

Control procedures should require a three-way match of the purchase order, receiver, and invoice before any payments can be made.

Condition

We observed an accounts payable staff member successfully modify the dollar amount on a receiver without changing the quantity received. However, the system did not return an error message in performing the three-way match with the corresponding purchase order and invoice.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Cause

The financial system is not configured properly to force the three-way match.

Effect

An invoice which was not properly vouched with a three-way match could be processed and paid.

Views of Responsible Officials

The County's Department of Technology has reconfigured the current system and established a control to provide an error message and to prevent entry if the user attempts to create a payment voucher for an invoice amount that exceeds the amount received.

Recommendation

The IT department must upgrade the JDE system with system logic that will prevent invoices that are not properly matched with its corresponding purchase order and receiver from being paid.

2005-08 IT General Controls – Treasury System Access

Criteria

Access to system and application resources should be limited to necessary functionality based on job functions.

Condition

All ResIQ users have access to any function within the ResIQ system.

Cause

Role-based security has not been adopted for the administration of the ResIQ system.

Effect

Users might have access to system functionality that conflicts with their job duties.

Views of Responsible Officials

The Treasurer's office has limited and/or completely restricted ResIQ user access based on the user's job functions and level of authority.

Recommendation

User access should be limited based on job functions.

2005-09 IT General Controls – Financial Systems Access

Criteria

When changes in job function occur, whether through transfer or termination, system access rights should be appropriately modified or revoked.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Condition

Changes in system access are currently required to be initiated by department users, and there is no mechanism in place to ensure that requests are processed every time a transfer or termination occurs.

Cause

The control procedures related to transfers and terminations are not designed to identify transfers and terminations as they occur and initiate a modification or revocation of system access rights.

Effect

Employees who are transferred or terminated might continue to have access to systems to which they should no longer have access.

Views of Responsible Officials

DOT has identified two Standard Operating Procedures (SoPs) to enforce proper control, the components of which are fully described in the July 2006 corrective action plan. These are titled:

- System Access Audit
- Financial System Account Administration

Both the procedures are documented and implemented.

Although in use by certain departments, the County will require checklist completion mandatory for all user departments. This checklist provides formal documentation of an employee's separation from the County or transfer and requests termination/modification of all system access. This additional control will supplement DOT's controls, in addition to providing timely documentation of the need for access modifications.

Also, the Accounting Division has implemented a procedure whereby they review journal entry approval access on a semi-annual basis. This access is reviewed in June and December of each year. Documentation of this review is maintained by the Accounting Division.

Recommendation

Design and implement a formal procedure for evaluating system access rights every time an employee is transferred or terminated.

2005-10 IT General Controls – Financial Systems Access Reviews

Criteria

A periodic review should be conducted of active users and user access rights to identify and remove unauthorized system access.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Condition

The policy as stated is to perform access reviews annually; based on inquiries of responsible personnel, the annual reviews have been conducted. Documentation providing evidence of access reviews was available; however, the documentation was not complete, and we were unable to verify if such reviews were conducted completely and timely.

Cause

The policy does not address the requirements for maintaining documentary evidence of the annual access reviews.

Effect

If evidence of reviews is not maintained, then there is no verifiable audit trail of the control procedure.

Views of Responsible Officials

DOT has identified a Standard Operating Procedure (SoP) to enforce proper control, the components of which are described in the July 2006 corrective action plan. It is titled:

- Systems User Rights Review

Currently, it is in the development stage.

Although in use by certain departments, the County will make its completion mandatory for all user departments. This checklist provides formal documentation of an employee's separation from the County or transfer and requests termination/modification of all system access. This additional control will supplement Department of Technology's controls, in addition to providing timely documentation of the need for access modifications.

Also, the Accounting Division has implemented a procedure whereby they review journal entry approval access on a semi-annual basis. This access is reviewed in June and December of each year. Documentation of this review is maintained by the Accounting Division.

Recommendation

The access review policy should be modified to include document retention standards.

2005-11 IT General Controls – Program Change Requests and Acceptance Testing

Criteria

A formal change management process outlining the requirements for making changes to systems and applications should be utilized. These procedures should include change control procedures for configuration settings present in operating systems, databases, system services, and applications. There should also be a process for testing and sign-off by both information systems and user personnel.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Condition

A formal process is in place requiring change requests to be documented and approved and testing to be performed and approved; however, adequate documentation supporting change requests and testing was not found to be maintained.

Cause

The formal change management and testing processes are not adequately designed to ensure that all supporting documentation is obtained.

Effect

Control procedures that do not include document retention are difficult to monitor and audit and thereby might lose effectiveness. If the change management control procedures are not operating effectively, then changes to systems and applications could be made by unauthorized personnel, resulting in inconsistencies in systems/applications or inefficiencies. Also, lack of testing of system and application changes could result in lost data, lost time, and system/application inefficiencies.

Views of Responsible Officials

The Department of Technology has identified a Standard Operating Procedure (SoP) to enforce proper control, the components of which are described in the July 2006 corrective action plan. It is titled:

- Change Management SoP

Currently, it is in the development stage.

Recommendation

The formal change management and testing processes should be monitored more closely to ensure that each occurrence is accompanied by all required and necessary documentation and approvals.

2005-12 IT General Controls – Production Change Limits

Criteria

Changes to applications and data in the production environment should be limited to authorized personnel, and all production changes should be monitored by an individual with an appropriate segregation of duties.

Condition

Although access to the production environment appears to be limited, changes in production are not monitored.

Cause

The control is not properly designed to meet the requirements of the control activity.

Effect

Changes in production are not monitored; hence, unauthorized changes to production might go undetected.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Views of Responsible Officials

The Department of Technology has identified a Standard Operating Procedure (SoP) to enforce proper control, the components of which are described in the July 2006 corrective action plan. It is titled:

- Change Management SoP

Currently, it is in the development stage.

Recommendation

Procedures should be developed to monitor all changes that occur in the production environment.

2005-13 IT General Controls – Backup and Recovery Procedures

Criteria

Network backup and recovery procedures should be tested periodically.

Condition

Although recovery procedures are performed twice a year and documentation is maintained for 12 months, there was no available evidence of access reviews during the period under audit.

Cause

Access reviews are not being performed to validate that recovery procedures are actually performed or that documentation is being maintained.

Effect

If access reviews are not performed, then there is limited evidence that the backup and recovery procedures exist or are effective in the restoration process.

Views of Responsible Officials

The Department of Technology has identified a Standard Operating Procedure (SoP) to enforce proper control, the components of which are described in the July 2006 corrective action plan. It is titled:

- Disaster Recovery SoP

Currently, it is in the development stage.

Recommendation

Backup and recovery procedures should include a required sign-off designating that the access reviews have been performed.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

2005-14 Application Controls – Access Review

Criteria

Periodic review should be performed of users with access to:

- Process payments in JDE
- Employee master file in PeopleSoft
- Pay code changes in PeopleSoft
- Enter requisitions and/or purchase order in the JDE system
- Create and approve journal entries in the JDE system

Reviews should be performed to ensure that access is limited to authorized personnel.

Condition

Although reviews should be performed periodically over user access controls, there is no evidence available to validate that this is being performed.

Cause

Documentation is not readily available, nor maintained in a reviewable format to provide evidence that these reviews are being performed.

Effect

Unauthorized persons may gain access to the system and make illegitimate changes to the system data or applications.

Views of Responsible Officials

The Accounting Division has reviewed journal entry user access lists to identify and remove unauthorized users. The Division will develop, document, and implement a procedure to ensure that complete general ledger access is reviewed, at a minimum, on an annual basis. Also refer to status update for Finding 2004-2.

The Department of Technology has taken steps to centralize access management into one area and develop standard documentation to be maintained. The department had recently conducted a number of reviews in this regard and has identified a Standard Operating Procedure (SoP) to enforce proper control. It is titled:

- System Users Access Rights Review

Currently it is in the development stage.

Recommendation

A sign-off procedure to validate as evidence that the review was performed should be required and maintained. Also, the term "periodic review" needs to be clearly defined as to how often these types of reviews are to be performed.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

2005-15 Compliance with Laws and Regulations – Timeliness of Financial Reporting

Criteria

Laws in the State of Michigan require local units of government to submit financial reports within six months of the year-end of the local unit.

Condition

Financial statements for the fiscal years ended September 30, 2004 and 2005 were not filed within six months of the County's fiscal year-end.

Cause

The delay primarily resulted from delays experienced during the audit of the year ended September 30, 2003.

Effect

Delayed financial reporting diminishes the usefulness of the financial statements and could result in penalties or sanctions.

Views of Responsible Officials

The reason for the delay is primarily the result of unforeseen delays in completion of the 2003 audit. The financial statements for the fiscal year ended September 30, 2004 were issued during 2006, and it is expected that the financial statements for the fiscal year ended September 30, 2005 will be issued by October 31, 2006. The County will issue financial statements for the fiscal year ended September 30, 2006 within six months of the fiscal year-end.

Recommendation

The County should continue to maintain its specific focus on returning to timely financial reporting.

2005-16 Application Controls – Timesheet Approval (PeopleSoft/Payroll)

Criteria

Access to approve timesheets within PeopleSoft should be limited to authorized individuals.

Condition

Once the timekeeper enters a timesheet, it is required to be approved by the department's approver; the assignment of approver authorities is a standard PeopleSoft feature; further, an unauthorized user had authorization to approve timesheets for other departments.

Cause

The controls are not properly designed to meet the requirements of the control activity.

Effect

Approval of timesheets by unauthorized individuals could lead to absenteeism, payroll discrepancies, etc.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Views of Responsible Officials

On May 31, 2006, M&B issued Policy/Procedure Statement No. 12003, "Time Reporting." This policy addresses the proper completion, review, approval, processing, and retention of time reports. The policy also provides standard forms to be used by County personnel, including management, for regular and grant time reporting.

The Personnel Department is monitoring instances where the user department did not approve payroll by the "lockdown" deadline, and requesting explanations from the payroll approver. Where necessary, remedial actions, such as assignment of backup approvers, are taken to ensure that appropriate user department approvals are made within the PeopleSoft system by the deadline.

Recommendation

The parameters of the PeopleSoft feature need to be re-visited to ensure that approval is being properly assigned.

2005-17 Internal Controls Over Workers' Compensation

Criteria

In order to appropriately design the internal control procedures to be utilized by the County over the processing, authorizing, and documenting of workers' compensation claims, the County should first obtain knowledge of the internal control procedures utilized by its third-party administrator and then assess and design controls over the processing, authorizing, and documenting for workers' compensation claims.

Condition

The County has not evaluated and reviewed the internal control procedures utilized by its third-party administrator and has not properly designed and maintained controls over the processing, authorizing, and documenting for workers' compensation claims.

Cause

The County does not currently have a policy in place that requires the evaluation of internal controls of the third-party administrators or the processing, authorizing, and documenting of workers' compensation claims.

Effect

By not attaining an understanding of the internal control procedures utilized by the third-party administrator, the County is at risk of not designing its internal control procedures adequately to correlate with or compensate for those of the third-party administrator.

Views of Responsible Officials

During fiscal year 2006/2007, the County will implement a policy requiring that third-party administrators obtain and submit a Statement on Auditing Standards (SAS) No. 70 report to the County as a condition of their contract with the County. The County will also implement a policy governing the processing, authorizing, and documenting of workers' compensation claims. This policy will detail the required documentation for each claim and will assist the maintenance of appropriate records.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Recommendation

The County should consider implementing a policy that any third-party administrator that will provide information that will be used to generate significant accounting estimates will be required to obtain and submit an auditors' report on its internal controls in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations*. The County then should review and assess its internal controls over processing, authorizing, and documenting workers' compensation claims.

2005-18 This number has not been used

2005-19 Internal Controls Over Hospitalization

Criteria

In order to appropriately design the internal control procedures to be utilized by the County over the processing and authorizing of hospitalization claims, the County should first obtain knowledge of the internal control procedures utilized by its third-party administrator. This would assist the County in appropriately contemplating the interaction of the internal controls between the two organizations.

Condition

The County has not evaluated and reviewed the internal control procedures utilized by its third-party administrator.

Cause

The County does not currently have a policy in place that requires the evaluation of internal controls of third-party administrators.

Effect

By not attaining an understanding of the internal control procedures utilized by the third-party administrator, the County is at risk of not designing its internal control procedures adequately to correlate with or compensate for those of the third-party administrator. Inadequate design of internal controls could lead to unauthorized or inaccurate claims being processed.

Views of Responsible Officials

During fiscal year 2006/2007, the County will implement a policy requiring that third-party administrators obtain and submit a Statement on Auditing Standards (SAS) No. 70 report to the County as a condition of their contract with the County.

Recommendation

The County should consider implementing a policy that any third-party administrator that will provide information that will be used to generate significant accounting estimates will be required to obtain and submit an auditors' report on its internal controls in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations*.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

2005-20 Bank Reconciliations

Criteria

The Treasurer's cash and investment records should be reconciled to the bank records on a monthly basis, and all differences should be investigated and appropriately resolved on a timely basis.

Condition

Monthly bank reconciliations contained unresolved differences that were not investigated and resolved on a timely basis.

Cause

Internal control procedures were not followed and monitored on a consistent basis.

Effect

Unresolved differences on cash reconciliations could result in errors and/or irregularities in the treasurer's records and in the general ledger.

Views of Responsible Officials

The Treasurer's Office has consistently had a number of vacant accountant positions, which has hampered its ability to complete bank reconciliations on a timely basis. Two positions will be filled during the month of November 2006. The additional staff will enable the Treasurer's Office to perform bank reconciliations in a more timely manner in the future.

Recommendation

Bank reconciliations should be completed within a short period of time after each month-end, and all differences should be investigated and resolved immediately.

Section III – Findings and Questioned Costs Relating to Federal Awards

2005-21 Allowable Costs/Costs Principles CDBG – CFDA #14.218

Criteria

OMB Circular A-87 and the A-102 Common Rule require that the County have controls in place to ensure all time, activity, and other costs are sufficiently tracked and supported by documentation.

Condition

For 3 out of 32 items selected for testing, the timesheet did not have proper management approval.

Questioned Costs

None

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Cause

Inadequate internal controls over time and activity reporting did not operate effectively.

Effect

Failure to maintain adequate internal control procedures could cause inappropriate costs to be charged to the program.

Views of Responsible Officials

On May 31, 2006, M&B issued Policy/Procedure Statement No. 12003, "Time Reporting." This policy addresses the proper completion, review, approval, processing, and retention of time reports. The policy also provides standard forms to be used by County personnel, including management, for regular and grant time reporting.

Recommendation

Internal control procedures should be followed to reduce the risk of potentially inappropriate costs being charged to a grant program.

**2005-22 Program Income – Inadequate Documentation
CDBG – CFDA #14.218**

Criteria

OMB Circular A-133 and Circular A-87 require the County to receive sufficient documentation to substantiate the receipt of program income.

Condition

For 16 out of 16 communities selected for testing, the County did not have proper evidence to support the receipt or reporting of program income on the reimbursement request forms submitted by the community.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate documentation could cause the County to be out of compliance with program requirements.

Views of Responsible Officials

It was not the Community Development Division's procedure to require grantees to submit reimbursement request forms for program income expenditures. The information needed to report to the Department of Housing and Urban Development (HUD) in their Integrated Disbursement Information System (IDIS) was extracted from existing reports. Subsequent to this audit, we have informed our grantees at their training on October 17 and 18, 2006 that they are now required to submit the reimbursement request for program income expenditures when

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

they turn in their quarterly reports. In addition, the quarterly report indicates that the proper request for payment forms must be submitted for expenditures along with the quarterly report.

Recommendation

Internal control procedures and documentation standards should be strengthened to ensure that program income is properly supported.

2005-23 Reporting – Labor Reports CDBG – CFDA #14.218

Criteria

County policy and the grant agreement require that the contract report forms agree to the labor report.

Condition

For 1 out of 25 items selected for testing, the contract report forms did not agree to the labor report.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate controls could cause the program to submit inaccurate information in accordance with the program requirements.

Views of Responsible Officials

In this instance the information was collected over the telephone from the City of Highland Park and reported directly onto the HUD report. At the time, collecting the information over the telephone was the quickest way to gather the information to report to HUD. Subsequently, the Department's management only accepts written reports.

Recommendation

Internal control procedures should be enforced to ensure that the reporting is complete and accurate.

2005-24 Reporting – Draw-Down Request CDBG – CFDA #14.218

Criteria

The grant agreement requires the County to submit a quarterly Federal Cash Transaction Report.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Condition

For the first quarter, a report was never submitted, which caused an unreconciled difference throughout the fiscal year.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate controls could cause the program to submit inaccurate information in accordance with the program requirements.

Views of Responsible Officials

This is an isolated instance. Management and Budget will provide oversight in fiscal year 2006/2007 to heighten awareness as to filing complete reports and will develop procedures to ensure that reports are filed timely.

Recommendation

Internal control procedures should be strengthened to ensure that the reporting is complete and accurate.

2005-25 Subrecipient Monitoring CDBG – CFDA #14.218

Criteria

County policies require periodic on-site monitoring visits of subrecipients and the receipt of Annual Community Performance Reports from the subrecipients.

Condition

Based on a review of the on-site monitoring log, the County only visited 5 communities during the program year when its policy would call for 11 communities to be visited. Additionally, we noted that 2 of the 5 communities did not receive their site visit results in a timely manner.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of subrecipients could cause funds to be disbursed to subrecipients who are not compliant with program terms and agreements.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Views of Responsible Officials

The Community Development Division has been hampered in recent years due to the lack of human resource capacity to complete the on-site monitoring or the lack of experience in personnel to properly perform. In fiscal year 2006/2007, Management and Budget will provide assistance in developing procedures in solving these issues.

Recommendation

Internal control procedures should be strengthened to ensure that monitoring procedures are conducted on a regular basis.

2005-26 Subrecipient Monitoring CDBG – CFDA #14.218

Criteria

According to OMB Circular A-133, pass-through entities are responsible for monitoring and ensuring that subrecipients obtain and submit audit reports within the required timeframe and take appropriate follow-up or corrective action for any related findings. The County established policies and procedures to receive all subrecipients' Single Audit reports and annual financial reports. The County is then to perform a desk review of the reports, and if findings are noted, a follow-up letter must be sent to the subrecipient for corrective action.

Condition

Out of 33 subrecipients selected for testing, 2 Single Audit reports were never received by the County and only a second request was sent (no further action or sanction taken), 4 subrecipients had findings in their report and the County did not issue a follow-up letter, 2 did not have a desk review performed as required by the County, and 4 communities did not have an annual financial report on file as required by the County.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate controls could cause the program to be out of compliance for subrecipient monitoring and potentially lose funding.

Views of Responsible Officials

During fiscal 2005/2006, the Grants and Contracts Management Division began preparing a log to monitor all letters requesting copies of the subrecipient's audit reports that the division mailed and all responses received. Follow-up letters were sent, and where necessary, telephone calls were placed to all subrecipients for which a response had not been received. This process will ensure that all subrecipients respond timely.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Recommendation

Internal control procedures should be strengthened and enforced to ensure that the policies and procedures over subrecipient monitoring are being performed.

2005-27 Subrecipient Monitoring – Award Identification CDBG – CFDA #14.218

Criteria

According to OMB A-133 the County is responsible for award identification, which includes, at the time of award, identifying to the subrecipient the federal award information (CFDA title, award name, award amount, name of federal agency) and applicable compliance requirements.

Condition

From our review of 33 subrecipient contracts, we noted that the contract did not contain the CFDA number associated with the award amount.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Not having the required award information may potentially cause inaccuracies when accounting and reporting information to the subrecipient.

Views of Responsible Officials

In fiscal year 2006/2007, the Grants and Contracts Management Division will be issuing a policy addressing subrecipient contract language in the areas of CFDA #, federal dollars, suspension and debarment, etc.

Recommendation

Internal control procedures should be followed to have the required information in the award documentation.

2005-28 Allowable Costs/Costs Principles – Payroll Timesheets Rouge National Wet Weather Demo Grant – CFDA #66.606

Criteria

OMB Circular A-87 and the A-102 Common Rule require that all time, activity, and other costs be sufficiently tracked and supported by documentation.

Condition

For 1 out of 60 items selected for testing, the timesheet did not agree to the amount paid.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Questioned Costs

None

Cause

Inadequate internal controls over time and activity reporting did not operate effectively.

Effect

Failure to maintain adequate supporting documentation and internal control procedures could cause inappropriate costs to be charged to the program.

Views of Responsible Officials

One out of 60 implies that the finding is the result of an isolated instance. The Department of Environment, Deputy Director of Finance, will check payroll source data, monthly, against the data entered into the system.

Recommendation

Internal control procedures should be followed to reduce the risk of inappropriate costs being charged to a grant program.

**2005-29 Cash Management
Rouge National Wet Weather Demo Grant – CFDA #66.606**

Criteria

Reimbursement-based grants are required to disburse funds for costs prior to requesting reimbursement.

Condition

For 2 out of 50 items tested, the County did not have a reasonable time lapse of paying expenditures before receipt of reimbursement.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of cash management could cause funds to be disbursed prior to incurring and paying costs.

Views of Responsible Officials

In the future, the Department of Environment, Accounts Payable unit will verify all draw-down requested line items are paid prior to requesting reimbursement. This is a change in the process in that the Department accounts payable had not been involved in the process.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Recommendation

Internal control procedures should be strengthened to ensure that program costs are paid by the County prior to being requested for reimbursement.

2005-30 Equipment and Real Property Management Rouge National Wet Weather Demo Grant – CFDA #66.606

Criteria

According to OMB Circular A-133, equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition

Out of 25 items selected for testing, 12 were disposed of but were not properly reflected in the system and 1 of the items was improperly included in the inventory listing. Additionally, there was no evidence to support that the County performed a physical inventory in the last two years.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to perform a physical inventory every two years, maintain adequate records, and have a proper internal control system could cause programs to lose funding due to noncompliance.

Views of Responsible Officials

The Department of Environment, Watershed Division, has corrected inventory data to comply with the finding and will continue to update the Equipment and Real Property inventory when an acquisition or disposition of assets takes place. The Division will perform a physical inventory every two years.

Recommendation

A physical inventory should be performed at least every two years, adequate documentation and internal controls over equipment acquisitions and disposals should be maintained, and program personnel should be more aware of the related compliance requirements.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

**2005-31 Procurement, Suspension, and Debarment
 Rouge National Wet Weather Demo Grant – CFDA #66.606**

Criteria

According to Common Rule A-102, all covered procurement transactions greater than \$25,000 (i.e., subawards to subrecipients are considered covered transactions) require the nonfederal entity must verify and certify that the organization and its principals are not suspended or debarred.

Condition

The County did not verify or certify all of the subrecipients (inter-agencies) that applied to this program were not suspended or debarred.

Questioned Costs

None

Cause

Client was not aware that the compliance requirement applied to their contracts.

Effect

Not being in compliance with the compliance requirement could have a negative effect on future funding.

Views of Responsible Officials

The Department of Environment, Watershed Division, will verify the suspension or debarment status of the contractor using the EPA website. In addition, the Grants Division is going to issue a policy in fiscal year 2006/2007 which will address the subrecipient wording for contracts.

Recommendation

The client should be more aware of the compliance requirements related to the program, and internal controls should be changed to ensure that the verification and certification of suspension and debarment are performed for all subrecipient contracts.

**2005-32 Subrecipient Monitoring
 Rouge National Wet Weather Demo Grant – CFDA #66.606**

Criteria

According to OMB Circular A-133, pass-through entities are responsible for monitoring and ensuring that subrecipients obtain and submit audit reports within the required timeframe and take appropriate follow-up or corrective action for any related findings.

Condition

For 7 out of 28 items tested, a Single Audit report was not available for review. Of the reports reviewed, 5 did not have evidence of the date received.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of subrecipients could cause funds to be disbursed to subrecipients who are out of compliance with program requirements.

Views of Responsible Officials

In fiscal year 2005/2006, the Grants and Contracts Management Division began preparing a log to monitor all letters requesting copies of the subrecipient's audit reports that the Division mailed and all responses received. Follow-up letters were sent, and where necessary, telephone calls were placed to all subrecipients for which a response had not been received.

On-site monitoring is performed; however, documentation is not maintained. In the future, the Department of Environment, Watershed Division, will keep records of all site visits.

Recommendation

Internal control procedures should be strengthened to ensure that monitoring procedures are conducted on a regular basis and documented sufficiently.

**2005-33 Subrecipient Monitoring
 Rouge National Wet Weather Demo Grant – CFDA #66.606**

Criteria

According to Wayne County policy, site visits are to be performed as part of subrecipient monitoring.

Condition

There was no evidence available to support that site visits were performed during the year.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of subrecipients could cause funds to be disbursed to subrecipients who are out of compliance with program requirements.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Views of Responsible Officials

The project engineer is presently performing the on-site visits but does not prepare any documentation describing the results. A checklist will be prepared and utilized on every on-site visit.

Recommendation

Internal control procedures should be strengthened to ensure that monitoring procedures are conducted on a regular basis and documented sufficiently.

**2005-34 Allowable Costs/Cost Principles – Payroll Certifications
Head Start – CFDA #93.600**

Criteria

OMB Circular A-87 requires that individuals who work solely on a federal program should complete certifications of time reported at least semi-annually.

Condition

Individuals who work solely on the program did not complete the required certifications on a timely basis.

Questioned Costs

None

Cause

Program personnel were unaware of the certification requirement, and when made aware, subsequently completed the required certifications.

Effect

Not requiring certifications could result in inaccurate expense reporting to the grant.

Views of Responsible Officials

The County issued a time reporting policy on May 31, 2006 that specifically addresses the issue of OMB Circular A-87 certification compliance. The certifications have been completed, so the Head Start program is now in compliance.

Recommendation

Semi-annual certifications should be required and obtained in a timely fashion from all personnel who work solely on the federal program.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

**2005-35 Allowable Costs/Cost Principles – Supporting Documentation
Head Start – CFDA #93.600**

Criteria

OMB Circular A-87 and the A-102 Common Rule require that all time, activity, and other costs be sufficiently tracked and supported by documentation.

Condition

For 1 out of the 60 items selected for testing, the timesheet did not properly support the time paid.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to maintain adequate supporting documentation and internal control procedures could cause inappropriate costs to be charged to the program.

Views of Responsible Officials

This was an isolated instance in which the timesheet was incorrect. The payroll registry recorded the appropriate hours and the employee was paid the correct amount. Payroll supervisors were made aware of this finding and were asked to be more diligent in their review of timesheets.

Recommendation

Internal control procedures and documentation standards should be strengthened and enforced to ensure that all costs are properly supported.

**2005-36 Allowable Costs/Cost Principles – Payroll Documentation
VFC Immunization Grant – CFDA #93.268**

Criteria

OMB Circular A-87 and the A-102 Common Rule require that all time, activity, and other costs are sufficiently tracked and supported by documentation.

Condition

For the 25 time cards tested, 6 were not available for review, 17 were not properly approved, and 4 timesheets did not agree with the amounts paid. In addition, 4 of the 25 service and activity analysis sheets were not properly approved.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to maintain adequate supporting documentation and internal control procedures could cause inappropriate costs to be charged to the program.

Views of Responsible Officials

The County issued a time reporting policy on May 31, 2006 that specifically addresses the issue of recording time and method of proper support and approval process. Internal controls are now properly in place to support, approve, and report payroll.

Recommendation

Internal control procedures and documentation standards should be strengthened to ensure that all costs are properly supported.

**2005-37 Eligibility/Special Tests and Provision – Record of Immunization
VFC Immunization Grant – CFDA #93.268**

Criteria

In accordance with OMB Circular A-I33, the program is required to have sufficient evidence of the determination of eligibility for each patient that is administered a vaccination.

Condition

Out of 25 immunization records selected for testing, 1 did not contain a required signature of the parent/guardian on the immunization report. Also, two patient records did not meet the eligibility requirements to receive vaccination under the program.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to maintain adequate internal control procedures could cause vaccines to be administered to ineligible patients.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Views of Responsible Officials

This appears to be an isolated instance; however, supervisors will instruct nurses to ensure that the parent or guardian always signs the Medicaid immunization report. Management will conduct random reviews to ensure compliance with reporting eligibility requirements.

Recommendation

Internal control procedures should be strengthened and enforced to ensure that all required signatures are obtained and all eligibility requirements are met before administering vaccinations.

2005-38 Special Tests and Provisions – Record of Immunization VFC Immunization Grant – CFDA #93.268

Criteria

According to OMB Circular A-133, the program is required to have a record of all vaccines administered; vaccines administered shall be made part of each person's permanent medical record and contain the following: date of administration, vaccine manufacturer and lot number of the vaccine, and the name, address, and, if appropriate, the title of the healthcare provider administering the vaccine.

Condition

Out of 25 immunization records selected for testing, 5 did not have the manufacturer and the lot number documented.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to maintain adequate internal control procedures could cause the program to be in noncompliance with the program requirements.

Views of Responsible Officials

Supervisors will instruct nurses to ensure that patient immunization reports have been signed in order to meet eligibility requirements. Management will conduct random reviews to ensure compliance.

Recommendation

Internal control procedures should be strengthened and enforced to ensure that all required information is obtained and recorded in accordance with program requirements.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

2005-39 Reporting
Urban Area Security Initiative – CFDA #97.008

Criteria

In accordance with the grant agreement, the requests for reimbursements were to be prepared and submitted according to a specific timetable.

Condition

All of the requests for reimbursements were not submitted by the dates laid out in the grant agreement or within the extended time frame approved by the sub-grantor.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Late submission of reimbursement request forms could potentially not be reimbursed by the sub-grantor.

Views of Responsible Officials

Management and Budget is presently assisting the Department in becoming current with grant requirements.

Recommendation

Internal control procedures should be strengthened to ensure that all reporting requirements are met.

2005-40 Activities Allowed/Cost Principles
Title IV-D – CFDA #93.563

Criteria

In accordance with OMB Circular A-87, employees that work on multiple activities must have sufficient documentation to support the time spent on the federal program.

Condition

For 1 out of 30 timesheets tested, the time reported did not agree to the time charged.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

Effect

The County could potentially lose federal funding due to noncompliance.

Views of Responsible Officials

The County issued a time reporting policy on May 31, 2006 that specifically addresses the issue of recording time and method of proper support and approval process. Internal controls are now properly in place to support, approve, and report payroll.

Recommendation

Internal control procedures should be strengthened to ensure that all time and effort reporting requirements are met.

2005-41 Eligibility
Title IV-D – CFDA #93.563

Criteria

In accordance with OMB Circular A-133, the program is required to have sufficient evidence of the determination of eligibility for each patient.

Condition

For 1 out of 30 cases tested, the case was inaccurately classified as Title IV-D.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to maintain adequate internal control procedures could cause the program to lose funding due to noncompliance.

Views of Responsible Officials

This was an isolated instance, and this case has been corrected to reflect the proper coding, as well as set for eligible case closure process. Cognizant personnel have been notified of this finding so that they may be more diligent in processing case information.

Recommendation

Internal control procedures should be strengthened to ensure that the correct cases are assigned to the correct federal program.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2005

2005-42 Procurement, Suspension, and Debarment Title IV-D – CFDA #93.563

Criteria

According to Common Rule A-102, all covered procurement transactions greater than \$25,000 (i.e. subawards to subrecipients are considered covered transactions) require the nonfederal entity to verify and certify that the organization and its principals are not suspended or debarred.

Condition

The County did not verify or certify that two out of five contractors were not suspended or debarred.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Not being in compliance with the compliance requirement could have a negative effect on future funding.

Views of Responsible Officials

In fiscal year 2006/2007, the Grants and Contracts Management Division will be issuing a policy addressing subrecipient contract language in the areas of CFDA #, federal dollars, suspension and debarment, etc.

Recommendation

Internal controls should be strengthened and enforced to ensure that the verification and certification of suspension and debarment are performed for all contracts.